Medicaid's $100+ Billion Leak

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Medicaid long-term care (LTC) has a problem: The wealthy access funds intended for the most vulnerable. Half or more of Medicaid's $217 billion annual LTC budget goes to beneficiaries who could otherwise afford to pay privately. This diverts scarce program resources from the neediest recipients while causing caregiver shortages and worsening access and quality problems for people on the program. LTC has been in the news recently because of President Biden's nursing home staffing mandates (as explored in a previous Prognosis by Jackson Hammond). Unfortunately, misguided government programs, specifically the current design of Medicaid eligibility, is the root cause of low-quality care. Let's explore the problem and offer a solution.

How Medicaid LTC Works

Medicaid LTC covers extended care in a nursing home or home care. People cannot qualify if they have more than $943 per month of income or over $2,000 in assets. There are numerous exceptions, however, that allow wealthier individuals to reach these low income and asset limits. To become eligible, applicants with more wealth must "spend down" to those levels. Many media accounts assume that spend-down requires paying privately for medical or LTC expenses until sufficient impoverishment occurs. The reality is that actual impoverishment is

unnecessary.

Income spend-down requires Medicaid applicants to prove they have consumed their excess income by purchasing medical or LTC services. If their qualified expenses are high enough, they qualify for Medicaid regardless of their income. A good rule of thumb is that beneficiaries with income below the monthly cost of a nursing home, roughly $8,000 or $9,000 per month, qualify.

The rules on asset spend-down are different. Assets do not have to be used for medical or LTC expenses to qualify. To reach the $2,000 limit on countable assets, Medicaid applicants can spend their wealth on anything they want, including any product or service that Medicaid considers "exempt."

What does Medicaid consider exempt? A home and all contiguous property between $713,000 and $1,071,000, depending on the state (no limit in California); home upgrades; one business including the capital and cash flow; an automobile; personal service contracts; compliant annuities and promissory notes; and even IRAs if they are in payout status, as most are for the elderly. Websites and lawyers who help affluent clients qualify for Medicaid provide long lists of smaller exempt assets that people can purchase to become eligible for publicly-financed LTC. Married couples have additional ways to convert countable into noncountable assets such as maximizing the community spouse's resource allowance (CSRA) or purchasing an irrevocable annuity.

Bottom line: There is no limit on how much wealth Medicaid recipients can retain as long as they hold it in one of these exempt forms.

Combined with Medicaid's lenient income eligibility rules, this means that the affluent can qualify for Medicaid and consume its resources to the exclusion of needier recipients the program was intended to serve.

Counting the Cost

How much of Medicaid's LTC budget is consumed by people who have qualified by converting their wealth to an exempt form? That question is hard to answer, but we can get some clues from a 2014 Government Accountability Office (GAO) report. GAO found that 74 percent of its sample "owned at least some resources that were not countable as part of their financial eligibility determination …" and of that 74 percent, "55 percent … had $20,000 or less in noncountable resources, 27 percent … had noncountable resources between $20,001 and $100,000, and 17 percent … had greater than $100,000 in resources that were not countable toward eligibility."

How much money is involved in these countable to noncountable conversions? That's impossible to say because GAO's (likely conservative) findings were based on small case record samples in only three states without verification from public records. While the results are not realistically projectable, they do permit us to calculate the hypothetical minimum amount that people could pay for their LTC if they paid privately.

Medicaid covered 5.6 million LTC recipients in 2020. If 12.6 percent of them had over $100,000 in noncountable resources, as GAO found, then at least $70.4 billion went unused for private LTC financing at Medicaid's expense. That's a lot of wealth for a poverty program to

protect, fully 32.5 percent of the total $217 billion Medicaid spent on LTC.

If 75 percent of LTC recipients owned a median amount of $12,530 in noncountable assets each, then at least $52.6 billion found its way into sheltered wealth, largely as prepaid burial expenses, which are sometimes permitted for the entire family, including adult children. That is a giant subsidy for the funeral industry at the expense of LTC financing for the poor, fully 24.2 percent of total Medicaid LTC expenditures.

If 31 percent of 5.6 million Medicaid recipients owned homes with a median value of $68,350, then $118.7 billion of real estate value was diverted from private LTC financing. (The $68,350 is from the GAO report and would be much higher if the analysis was done today and not a decade ago.) Given that Medicaid exempts nearly all home equity, it is clear that Medicaid replaces practically all personal LTC liability from home equity. The loss is 54.7 percent of what the program spends on LTC.

If 3 percent of recipients own real property other than their primary residence, such as vacation homes, with a median value of $47,300 (also from the GAO report), then $7.9 billion is converted from private LTC financing into a Medicaid liability while preserving a personal luxury. That's where 3.6 percent of Medicaid LTC expenditures go if GAO's findings hold true when tested nationally.

Thus, half or more of what Medicaid spends on LTC is expended because the program allows people with significant wealth to qualify by

converting countable assets into noncountable ones. The human consequences are as serious as the financial ones. By covering too many people who should have paid for part or all their own care, Medicaid shortchanges the most vulnerable it was intended to serve. By doing so for nearly six decades, Medicaid has created a moral hazard that discourages most Americans from planning for LTC, whether through savings, investment, or insurance. Why plan and prepare when the government pays anyway if you ever need expensive LTC?

Importantly, Medicaid enrollees suffer care deficiencies and staff shortages caused by the program covering too many people at extremely low reimbursement rates that struggle to cover the costs of LTC. Recent government requirements that LTC providers increase staffing without commensurate compensation will only exacerbate this problem.

The Solution

What should be done to fix these issues? First, conduct a study to estimate the actual nationwide cost of converting countable assets into noncountable assets. Second, stop the purchase of exempt assets for people to achieve artificial self-impoverishment. Third, require Medicaid applicants to document that assets are spent down for medical or LTC expenses the same way they must verify income spend-down. Combined, these measures will encourage the financially-able to take more responsibility for LTC; to save, invest or insure for that risk; and to avoid turning to Medicaid late in life. With more people paying privately for LTC at market rates, care quality will improve for all, and Medicaid will be able to focus on better care for society's most vulnerable people.